

ADMINISTRATION, AUDIT, AND ENFORCEMENT

During the 1996-97 reporting period, the Charitable Gaming Division initiated and/or resolved 41 separate administrative actions involving gaming licensees. Below is a summary of the Division's Administrative Actions:

Administrative Orders Issued:

License Denial	4	
License Suspension	2	
Administrative Fines*	32	(Amount collected: \$33,450)

Administrative Actions Initiated and Pending:

License Denial	2
License Revocation	5
Administrative Fine	1

Administrative Orders Appealed and Resolved in Higher Court:

District Court	2
Supreme Court	1

Lawsuits Initiated Against the Department and Pending in Higher Court:

District Court	2
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*Monies collected from the fines assessed are deposited by the State Treasurer into the Permanent School Fund, for the support and maintenance of schools in Nebraska.

Temporary licenses were granted by the State Tax Commissioner to applicants where the Department sought to deny a license application, in order to protect the rights of the parties during pendency of any administrative or court proceedings. As of the close of the annual reporting period, the following temporary licenses had been granted:

Class II Lottery by Sale of Pickle Cards	2
Utilization of Funds Member	3
Pickle Card Operator	1

The Policy/Licensing Section has responsibility for the licensing of individuals, businesses, counties, cities, villages, and nonprofit organizations to conduct charitable gaming activities in Nebraska. It is also responsible for the implementation of legislation enacted by the Nebraska Legislature relative to charitable gaming activities and the promulgation of administrative regulations and revenue rulings which supplement statutory provisions.

The 1996 Nebraska Legislature enacted one bill relating to charitable gaming activities. LB 1277, which was effective July 19, 1996, made some minor changes to the Nebraska Pickle Card Lottery Act. First, LB 1277 added nonprofit organizations which are exempt under section 501(c)(7) of the Internal Revenue Code to the list of nonprofit organizations which are eligible to apply for and obtain a lottery by pickle card license. The Internal Revenue Service defines organizations which are exempt under section 501(c)(7) as "clubs organized for pleasure, recreation, and other nonprofit purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder." LB 1277 did not similarly address the eligibility of section 501(c)(7) organizations for a bingo license. Since enactment of LB 1277, the Department has issued two Class II lottery by pickle card licenses to section 501(c)(7) nonprofit organizations (Blair Golf Club and Platt Duetsche Corporation). Second, LB 1277 legalized seal cards as an authorized form of lottery by the sale of pickle cards. A seal card game is a pickle card or punchboard game that incorporates a flare or "placard," which has one or more "seals" contained on it. Some of the pickle cards in a seal card game will entitle the holder to "sign up" for one of the "seal" prizes. After all of the pickle cards in the game have been sold, the seal or seals are removed from the placard to reveal the winning seal numbers. Revenue rulings dealing with game conduct and construction standards for the manufacturing of seal cards were adopted and implemented during the 1996-97 reporting period. As a result of this legislation, 96 seal cards games were approved for sale in Nebraska during this reporting period.

The 1997 Nebraska Legislature enacted LB 248. One of the provisions in LB 248 was effective June 6, 1997. This provision amended the Nebraska Lottery and Raffle Act to provide for an alternative method of winner determination. Specifically, a lottery or raffle may be conducted by means of a race using inanimate buoyant objects (often referred to as a duck race) to determine the winner(s) of the lottery or raffle. A revenue ruling establishing rules of play for "duck races" was developed during the reporting period and adopted in July, 1997, just shortly after the close of the reporting period.

The use of electronic bingo card monitoring devices became more prevalent during the 1996-97 reporting period. Two manufacturers of electronic bingo card monitoring devices were licensed during this reporting period; however, only one of these manufacturers had equipment approved by the Department during the reporting period.

Six nonprofit organizations licensed to conduct bingo began utilizing the devices during the reporting period.

The Policy/Licensing Section began working with the Secretary of State's Office, Records Management Division, in the development of a record retention schedule for county/city lottery records. In the past there had been some confusion regarding what keno records had to be retained and for what length of time. Additional confusion was created due to an apparent discrepancy between a General Records Retention Schedule published for city treasurers and the information contained in the County and City Lottery Regulations. The new retention schedule was finalized and published in January, 1998.

The revision of Nebraska's bingo and lottery/raffle regulations is an ongoing project. Draft regulations are being reviewed by various Division staff members. One or more public hearings are anticipated in 1998 to solicit comments and questions on the revised regulations.

A number of new regulatory issues will likely confront the Policy/Licensing Section in the future. There exists pending legislation relating to the use of coin and currency-operated dispensing devices incorporating some type of visual display which, if enacted, will present us new regulatory challenges to effectively deal with this type of technology. The continued growth in the use of traditional coin and currency-operated dispensing devices has also raised regulatory issues prompting the State Tax Commissioner to propose the establishment of an industry study group to review the current use of dispensing devices and make recommendations to the Department of Revenue and the Legislature regarding ways to improve the regulation of these devices. Finally, while the number of new county/city lottery (keno) operations are declining, existing operations are seeking regulatory or legislative assistance aimed at enhancing their keno operations. The restriction on time between games (minimum of 5 minutes), the prohibition on player-activation, and the necessity for paper tickets are all existing requirements that may be targeted for change.

The Audit Section is responsible for financial enforcement and compliance review of licensed organizations conducting bingo, pickle card, and lottery/raffle activities. The Audit Section is also responsible for the review of certain financial aspects of computerized keno systems that are approved by the Department for use in county/city lottery operations.

In addition to routine and requested field audits, the Audit Section conducted monthly reviews of the pickle card tax returns submitted by licensed distributors; monthly reviews of pickle card activity reports required from organizations with significant cash shortages; quarterly reviews of tax returns submitted by organizations conducting bingo and lottery/raffle activities, and counties, cities, and villages conducting a county/city lottery (keno) activity; and an annual report review of all licensed organizations conducting bingo, pickle card, and lottery/raffle activity as well as for all counties, cities, and villages conducting county/city lottery (keno) activity.

Further Audit Section activities break down as follows:

- 676 Pickle Card Annual Reports reviewed
- 255 Bingo Annual Reports reviewed
- 202 Lottery/Raffle Annual Reports reviewed
- 131 County/City Lottery Annual Reports reviewed
- 89 Annual Report Nonfilers identified and referred to Investigation Division
- 54 Annual Report Shortages identified and referred to Investigation Division
- 4 Other Annual Report Violations identified and referred to Investigation Division
- 25 Other Annual Report Violations identified and referred to Policy Section/Legal Division
- 24 Field Audits of pickle card operations
- 26 Field Audits of county/city lottery (keno) operations
- 370 Letters Written to licensees in an attempt to explain the problems with their annual reports and how nonprofit organizations can use the annual reports to audit themselves
- 32 Field Visits to explain problems on the annual reports, take inventory, reconcile what the organization deposited into its pickle card account to the calculated amount of funds generated from the sale of pickle cards (memoranda, with audit findings and work papers, were prepared for the violations of gaming laws and provided to the Legal and Investigation Divisions for further action)
- 42 Monthly Reconciliations required to track the pickle card funds of organizations found to have significant shortages
- 7 Organizations With Additional Tax Liabilities found as a result of an annual report review

The Audit Section also created a computer program to summarize all pickle card unit sales. Sales (to licensed organizations) reported on the tax returns filed by the licensed distributors can now be entered and merged into a

single report which totals all purchases by an organization for the entire fiscal year. This is used to verify information which the organizations file on their annual reports.

The Investigation Division is responsible for investigative/ enforcement functions involving charitable gaming activities, as well as numerous other responsibilities within the Department. The staff is located at various locations throughout the state and have varied areas of responsibility as related to charitable gaming activities, some in the area of investigation, some in the area of inspection and on occasion, both areas.

The types of investigations and inspections conducted are both reactive and proactive, depending upon the situation. The Investigation Division works closely with the Charitable Gaming Division regarding matters involving charitable gaming activities. An example of this would be the large increase in the number of bingo game inspections conducted over the previous year, which was the direct result of several revisions made jointly by the two Divisions regarding the inspection program for bingo licensees.

There are continually new thoughts and ideas being reviewed regarding the investigation/enforcement of charitable gaming laws of the state, in order to ensure "as level a playing field" as possible for all participants.

During the reporting period, the Investigation Division conducted the following charitable gaming enforcement activities:

124	Bingo Game Inspections
254	Organization Inspections (Pickle Card and Lottery/Raffle)
1,951	Pickle Card Operator Inspections
68	Decal Violations on Pickle Card Dispensing Devices
3	Manufacturer Inspections (Bingo and Pickle Card)
3	Manufacturer Background Investigations
4	County/City Lottery Background Investigations
135	Keno Compliance Visitations
311	Investigations resulting from alleged violations and/or complaints (all gaming activities combined)
22	Formal Presentations to gaming licensees or potential licensees